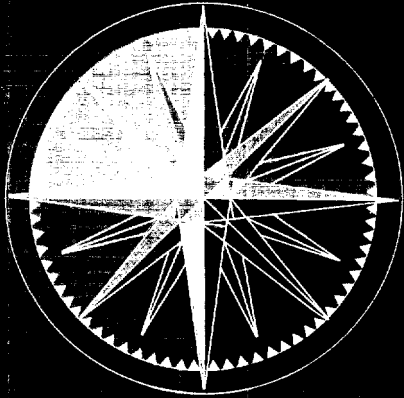


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# SPECIAL REPORT

BRITAIN, THE COMMON MARKET, AND THE NORTH SEA GAS FIELDS

CENTRAL INTELLIGENCE AGENCY  
OFFICE OF CURRENT INTELLIGENCE

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27 March 1964

**BRITAIN, THE COMMON MARKET, AND THE NORTH SEA GAS FIELDS**

Large quantities of natural gas found in the Netherlands in recent years lie in a geological formation centered in the North Sea. The Dutch discovery has therefore stimulated a major effort by other littoral states to find offshore deposits of gas and oil. Further discoveries of sizable reserves of either gas or oil would have a profound effect on the British and Continental economies and could set off a major jurisdictional dispute among the states bordering the North Sea. The British Government is already moving rapidly to assert its claims and has introduced legislation regulating the exploitation of resources in the subsoil of the continental shelf. Other governments either are considering similar measures, or have already taken other action.

Current Exploration Efforts

According to conservative official estimates the Netherlands gas field may yield 39 trillion cubic feet, making it the third largest so far discovered, smaller only than those at Panhandle, Texas, and Hassi R'Mel, Algeria. The geological prospects, moreover, offer hope of discovering other fields. The formation in which the Dutch found natural gas appears to have numerous salt domes under which gas or oil are usually trapped. While centered in the North Sea, the formation also underlies parts of northern West Germany, Denmark, and England, as well as the Netherlands.

British oil firms have so far led the race in offshore exploration. British Petroleum, Esso, and Royal Dutch Shell last year started a joint program for seismic exploration of a 30,000-square-mile fringe of the North

Sea between Lowestoft, England, and the Firth of Forth in Scotland. This group now is planning to range farther afield and survey a portion of the continental shelf off Norway.

American oil companies and the British Gas Council are jointly engaged in an aerial survey of over 20,000 square miles of the seabed off (Norfolk, Lincolnshire, and Yorkshire, England. Ten companies have also subscribed funds for a geophysical survey of 144,000 square miles of the sea, with operations based in Copenhagen.

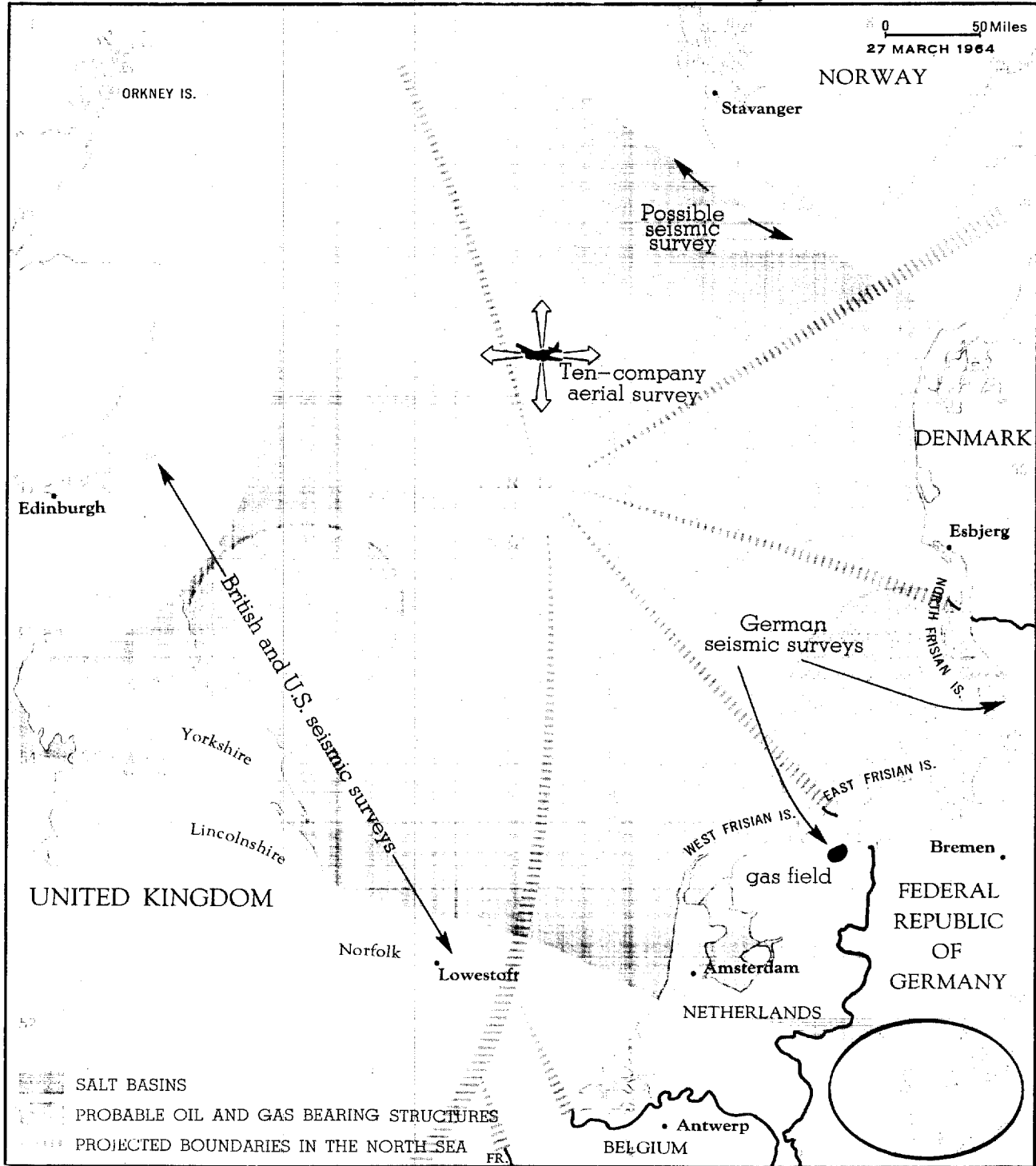
The purpose of all the surveys is primarily to secure information in anticipation of future bidding once the bordering countries declare sovereignty over the sea's mineral rights and establish offshore boundaries. Extensive drilling cannot begin until these legalities are settled and national

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# The North Sea-Oil and Gas Surveys

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legislation controlling such operations is passed.

### British Legislation

The British Government has begun to establish the statutory framework of its policy in this matter, and the Continental Shelf Act now before Parliament is expected to be enacted this spring. The purpose of the measure is to regulate the exploitation of any oil, gas, or coal which might be found in that area of the continental shelf subject to British jurisdiction. However, it does not attempt to set down how far that area will extend--a matter which must be settled through international negotiation.

To implement the proposed act, Ministry of Power officials are engaged in framing regulations governing such matters as exploration and exploitation licenses and royalties. Barring unforeseen hitches, the large number of American and other oil companies eagerly awaiting the approval of the bill and implementing regulations will probably be able to apply for exploitation licenses before summer.

### Jurisdictional Disputes

The negotiations among interested governments to settle what part of the continental shelf belongs to whom may be prolonged and difficult.

The basic international agreement on this problem is the

1959 Geneva Convention on the Continental Shelf prepared under the auspices of the United Nations. The convention has thus far been ratified by 21 countries and will come into force after one more has done so. Of the North Sea countries, Denmark has already ratified, and the UK, the Netherlands, and West Germany have announced their intention to ratify shortly.

The convention provides a general framework of law to be filled in by appropriate national legislation and by agreements between states. Its chief value is that it recognizes the right of littoral countries to search for and exploit certain natural resources--including minerals--where the continental shelf is common to more than one nation.

Under the terms of the convention, the sharing of the seabed in the North Sea would be decided by agreement with other nations bordering that area. In the absence of such agreements the boundary would be the median line between the two coasts. The convention also provides a formula for determining a median line between two contiguous states.

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In January 1964 West Germany claimed sovereignty over the seabed off its coast within a line which apparently would run between 170 and 560 miles from the North German shore.

Such large--and conflicting--claims would infringe on the more modest territorial waters claims of the other littoral countries.

The Netherlands, in turn, has announced that no company may start drilling operations in the "appropriate" North Sea area--meaning its waters--pending promulgation of a new oil law in the Dutch Government. This will probably be done at the same time as the UN convention is ratified.

### Effects on Britain

The outcome of the exploration and of the forthcoming negotiations is of the greatest importance to the economic future of Britain and of the Common Market countries alike.

Britain, like its Western European neighbors, is heavily dependent on imported oil for its energy requirements, and its demand for oil is growing rapidly. In 1962, Britain used 1,050,000 barrels per day. By 1970 it will consume an estimated additional 550,000 barrels per day. For years beyond 1970, estimates are still higher.

The prospect of finding new energy sources nearby is especially attractive because

of Britain's chronic balance-of-payments problem. Some authorities have guessed that shallow gas fields under the North Sea may contain reserves of not less than 2 trillion cubic feet per field, equivalent to some 300 million barrels of oil. Exploiting several fields of this size would materially reduce Britain's payments difficulties and improve its competitive position internationally. Moreover, secure ownership of and access to fuel on this scale would help Britain rid itself of the costly problem of its worn-out coal industry.

In foreign affairs one of the main determinants in Britain's relations with the Middle East, from which it now obtains over 80 percent of its oil supply, would be substantially reduced in significance. The threatened denial of Middle Eastern oil to the British economy during the 1956 Suez crisis highlighted Britain's vulnerability, and spurred its search for an adequate supply of oil not subject to the vicissitudes of Middle Eastern politics.

### Implications for the EEC

Access to oil and natural gas reserves under the North Sea would also significantly alter the distribution of energy supplies among the six countries of the Common Market. The Netherlands, traditionally dependent on imported petroleum for about one third of its energy requirements, now looks forward to meeting some of the requirements

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of neighboring countries by exporting natural gas. France, on the other hand, which now exports domestic coal and Saharan oil and gas, would become relatively less important in supplying community requirements. The French could, however, obtain indirect access to North Sea reserves through heavy investment in German or Dutch fields.

The EEC countries, like the UK, are basically interested in obtaining a cheap and secure fuel supply to meet fast-rising demands. They also want to ensure fair competition among various forms of energy while avoiding serious disruption of existing industries. The EEC energy situation is greatly complicated, however, because not only are six countries involved but also the three communities, each with competency in a different area: the EEC in oil and natural gas, the Coal and Steel Community (CSC) in coal, and EURATOM in atomic energy.

Europe's petroleum consumption has more than tripled over

the last decade. This rapidly increasing dependence on oil has given fresh impetus to concern about the security of oil supplies, a problem for which discovery of important European reserves would offer a partial answer.

New sources of energy within the Common Market would also increase the already substantial pressures to eliminate inefficient coal producers. The conflict between the general desire for cheap fuel and national desires to preserve domestic coal industries is at the heart of the EEC's failure thus far to agree on an energy policy. Thus Germany, Belgium, and Luxembourg are important coal producers and want coal protected, while Italy and the Netherlands, as large energy importers, oppose such a policy. Under its vigorous new president, Dino Del Bo, the CSC now is trying to induce the Six to reduce the high protection now afforded coal and to replace it with gradually diminishing subsidies. (SECRET NO FOREIGN DISSEM)

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